

Gateway Services Community  
Development District

Financial Statements

Year Ended September 30, 2011

Gateway Services Community Development District  
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September 30, 2011

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors  
Gateway Services Community Development District  
Lee County, Florida

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gateway Services Community Development District (hereinafter referred to as "District"), as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 29, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 2 through 8 and on pages 36 through 38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Carr, Riggs & Ingram, L.L.C.*

Miramar Beach, Florida  
June 29, 2012

## Management's Discussion and Analysis

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Gateway Services Community Development District's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the District's financial statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

- At September 30, 2011, the assets of the District exceeded its liabilities by approximately \$47.8 million. This total was comprised of \$37.7 million in the District's governmental activities and \$10.1 million in its business-type activities.
- During the year ended September 30, 2011, the District operated its water and sewer facilities for the benefit of its residents. The results from operations totaled a net deficit of \$331,343, which includes depreciation and amortization expense of \$549,751.

### USING THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities on pages 9 - 10 provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

#### ***Reporting the District as a Whole***

Our analysis of the District as a whole begins on page 4. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's assessment base and the condition of the District's infrastructure, to assess the overall health of the District.

In the Statement of Net Assets and the Statements of Activities, we divide the District into two kinds of activities:

- Governmental activities – Many of the District's basic services are reported here, including general administration expenses as well as maintenance and operations. Owner assessments finance most of these activities.
- Business-type activities – The District charges certain fees for services to operate and maintain the District's wastewater, potable water and irrigation water collection, transmission and/or distribution facilities.

### ***Reporting the District's Most Significant Funds***

Our analysis of the District's major funds begins on page 6. The fund financial statements begin on page 11 and provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants. The District's three kinds of funds – governmental, proprietary and fiduciary – use different accounting approaches.

- *Governmental funds* – Many of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities and governmental funds in reconciliation with the fund financial statements.
- *Proprietary funds* – When the District charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the District's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.
- *Fiduciary Funds* – The District is the trustee, or fiduciary, for its employees' pension plan. In addition, the District collects and remits monies on behalf of other governments and entities. This activity is recorded in the agency fund. All of the District's fiduciary activities are reported in separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 19 and 20. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in this fund are used for their intended purpose.

## THE DISTRICT AS A WHOLE

The following table reflects the condensed Statement of Net Assets and is compared to the prior year (in thousands).

<i>September 30,</i>	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	2011	2010	2011	2010	2011	2010
<b>Assets</b>						
Current and other assets	\$ 7,857	\$ 8,126	\$ 3,902	\$ 4,689	\$ 11,759	\$ 12,815
Capital assets, net	33,038	34,378	11,236	11,690	44,274	46,068
<b>Total assets</b>	<b>\$ 40,895</b>	<b>\$ 42,504</b>	<b>\$ 15,138</b>	<b>\$ 16,379</b>	<b>\$ 56,033</b>	<b>\$ 58,883</b>
<b>Liabilities</b>						
Current liabilities	\$ 353	\$ 331	\$ 2,587	\$ 3,136	\$ 2,940	\$ 3,467
Other liabilities	2,796	2,863	2,486	2,846	5,282	5,709
<b>Total liabilities</b>	<b>3,149</b>	<b>3,194</b>	<b>5,073</b>	<b>5,982</b>	<b>8,222</b>	<b>9,176</b>
<b>Net assets</b>						
Invested in capital assets, net of debt	30,557	31,837	9,336	9,609	39,893	41,446
Restricted for						
Debt Service	212	204	1,105	1,061	1,317	1,265
Capital projects	2,284	2,399	-	-	2,284	2,399
Unrestricted	4,693	4,870	(376)	(273)	4,317	4,597
<b>Total net assets</b>	<b>37,746</b>	<b>39,310</b>	<b>10,065</b>	<b>10,397</b>	<b>47,811</b>	<b>49,707</b>
<b>Total liabilities and net assets</b>	<b>\$ 40,895</b>	<b>\$ 42,504</b>	<b>\$ 15,138</b>	<b>\$ 16,379</b>	<b>\$ 56,033</b>	<b>\$ 58,883</b>

For more detailed information, see the accompanying Statement of Net Assets.

During the fiscal year ended September 30, 2011, total assets and liabilities for the primary government decreased approximately \$2.9 million and \$950,000 respectively. Total assets and liabilities of the District's governmental activities decreased by approximately \$1.6 million and \$45,000, respectively. These decreases were largely the result of depreciation on capital infrastructure and principal payments on long-term debt.

Net assets of the business-type activities decreased by approximately \$332,000. Included in this decrease is depreciation and amortization expense totaling approximately \$549,800. Total assets and liabilities of the business-type activities decreased by approximately \$1.2 million and \$909,000, respectively. These decreases were largely the result of depreciation on capital infrastructure, timing of vendor payments and principal payments on long-term debt.

The District's total revenues (as shown on the following page) and total expenses remained substantially unchanged. Our analysis below separately considers the operations of governmental and business-type activities.

### **Governmental Activities**

Revenues of the District's governmental activities decreased by approximately \$440,000, while expenses increased by approximately \$300,000 over the prior year. The decrease in revenues was due to a decrease in assessments and settlement proceeds recognized in the prior year. The increase in expenses was due to an increase in wetland maintenance expense. The overall results produced an approximate \$1.6 million decrease in net assets for fiscal year 2011.

### **Business-type Activities**

Revenues and expenses of the District's business-type activities increased by approximately \$345,000 and \$144,000, respectively. The increase in revenues was due to an increase in rates for water, sewer, and irrigation usage. The increase in expenses was due to repairs and maintenance of infrastructure. The overall results produced a \$330,000 decrease in net assets for fiscal year 2011.

The following schedule compares the Statement of Activities for the current and previous fiscal years (in thousands).

<i>Year ended September 30,</i>	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 2,689	\$ 2,872	\$ 3,021	\$ 2,644	\$ 5,710	\$ 5,516
Grants and contributions	1	1	-	-	1	1
General revenues						
Interest and other revenues	136	392	33	65	169	457
<b>Total revenues</b>	<b>2,826</b>	<b>3,265</b>	<b>3,054</b>	<b>2,709</b>	<b>5,880</b>	<b>5,974</b>
<b>Expenses:</b>						
General government	259	331	-	-	259	331
Maintenance and operations	3,943	3,566	-	-	3,943	3,566
Interest	188	193	-	-	188	193
Water and sewer	-	-	3,386	3,242	3,386	3,242
<b>Total expenses</b>	<b>4,390</b>	<b>4,090</b>	<b>3,386</b>	<b>3,242</b>	<b>7,776</b>	<b>7,332</b>
Increase (decrease) in net assets	(1,564)	(825)	(332)	(533)	(1,896)	(1,358)
Net assets, beginning	39,310	40,135	10,397	10,930	49,707	51,065
Net assets, ending	\$ 37,746	\$ 39,310	\$ 10,065	\$ 10,397	\$ 47,811	\$ 49,707

For more detailed information, see the accompanying Statements of Activities.

## THE DISTRICT'S FUNDS

### ***Governmental Funds***

As the District completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of approximately \$7.5 million, which is a decrease from the prior year's balance that totaled approximately \$7.6 million. Significant transactions are discussed below.

- During the year ended September 30, 2011, the District incurred approximately \$186,000 of interest expenditures and repaid principal of \$65,000 on its Series 2003A Bonds.
- The District established additional capital infrastructure totaling approximately \$192,000.

The overall decrease in governmental funds fund balance for the year ended September 30, 2011 totaled approximately \$105,000.

### ***Proprietary Fund***

The District's proprietary fund provides the same type of information found in the business-type activities column of the government-wide financial statements, but in more detail. Net assets decreased from prior year, and factors concerning that decrease and other items have already been discussed in a preceding section.

## GOVERNMENTAL FUNDS BUDGETARY HIGHLIGHTS

An Operating budget was established by the governing board for the District pursuant to the requirements of Florida Statutes. The budget to actual comparisons for the general fund and special revenue funds, including the original budget and final adopted budgets are shown on pages 36 – 38.

The District experienced an unfavorable variance in revenues and a favorable variance in expenditures as compared to the general fund budget in the amount of \$99,846 and \$10,060, respectively. The only significant variance was the decrease in interest and other revenues, as assessments and expenses did not materially differ from the budget. In addition, the District experienced a favorable variance with respect to other financing sources. This variance was primarily a result of certain vendor settlements.

The District experienced a favorable variance in expenditures from the Stoneybrook Special Revenue Fund budget in the amount of \$2,735. This difference occurred primarily due to anticipated budgeted operating expenditures that were not incurred during the year. Actual revenues were not substantially different from budgeted amounts.

The District experienced a favorable variance in revenues over the Pelican Preserve Special Revenue Fund budget in the amount of \$6,492. Conversely, the District experienced an unfavorable variance in expenditures compared to the budget in the amount \$4,350. These differences occurred primarily due to legal fees exceeding the amount budgeted for the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### **Capital Assets**

At September 30, 2011, the District had approximately \$44.3 million invested in capital assets (net of depreciation). This amount represents a net decrease (including additions and deductions) of approximately \$1.8 million from the fiscal year 2010 total.

A listing of capital assets by major category for the current and prior year follows (in thousands):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2011	2010	2011	2010	2011	2010
Land and improvements	\$ 5,439	\$ 5,439	\$ -	\$ -	\$ 5,439	\$ 5,439
Capital assets being depreciated	40,572	40,380	19,250	19,184	59,822	59,564
Total prior to depreciation	46,011	45,819	19,250	19,184	65,261	65,003
Less accumulated depreciation	(12,974)	(11,442)	(8,014)	(7,494)	(20,988)	(18,936)
Net capital assets	\$ 33,037	\$ 34,377	\$ 11,236	\$ 11,690	\$ 44,273	\$ 46,067

More information about the District's capital assets is presented in Note 6 to the financial statements.

### **Debt**

At September 30, 2011, the District had approximately \$5.3 million of bonds outstanding. This amount represents a net decrease of approximately \$270,000 from the fiscal year 2010 total.

A listing of debt amounts outstanding for the current and prior year is as follows (in thousands):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	2011	2010	2011	2010	2011	2010
Special Assessment Bonds	\$ 2,795	\$ 2,860	\$ -	\$ -	\$ 2,795	\$ 2,860
Water and Sewer Refunding Revenue Bonds	-	-	2,480	2,685	2,480	2,685
Total	\$ 2,795	\$ 2,860	\$ 2,480	\$ 2,685	\$ 5,275	\$ 5,545

For additional information on Debt, see Note 7 in the accompanying financial statements.

## **FUTURE FINANCIAL FACTORS**

Gateway Services Community Development District is an independent special district that operates under the provisions of Chapter 190, Florida Statutes. The District operates under an elected Board of Supervisors, which establishes policy and sets assessment rates. Assessment rates for fiscal year 2012 were established to provide for the operations of the District.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. If you have questions about this report or need additional financial information, contact the Gateway Services Community Development District's management company at 5680 W. Cypress Street, Suite A, Tampa, Florida 33607.

# Basic Financial Statements

# Gateway Services Community Development District

## Statement of Net Assets

<i>September 30,</i>	<b>2011</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 4,298,411	\$ 2,131,292	\$ 6,429,703
Investments	2,880,243	-	2,880,243
Accounts receivable, net	5,911	597,615	603,526
Accrued interest receivable	456	-	456
Prepaid expenses	27,597	8,949	36,546
Internal balances	570,547	(570,547)	-
Restricted assets:			
Interest receivable	-	9	9
Investments	-	1,549,230	1,549,230
Deferred charges, net	74,111	185,576	259,687
Capital assets:			
Non-depreciable	5,439,433	-	5,439,433
Depreciable, net	27,598,267	11,236,413	38,834,680
Total assets	40,894,976	15,138,537	56,033,513
<b>Liabilities</b>			
Accounts payable	277,761	288,397	566,158
Accrued interest payable	75,698	74,400	150,098
Customer prepayments	-	2,071,013	2,071,013
Deferred revenue	-	4,186	4,186
Due to other governments	-	149,360	149,360
Noncurrent liabilities:			
Compensated absences	21,443	17,901	39,344
Due to other governments	-	12,207	12,207
Due within one year	60,000	215,000	275,000
Due in more than one year	2,714,557	2,240,388	4,954,945
Total liabilities	3,149,459	5,072,852	8,222,311
<b>Net assets</b>			
Invested in capital assets, net of related debt	30,556,370	9,336,565	39,892,935
Restricted for:			
Debt service	211,827	1,104,866	1,316,693
Capital projects	2,284,358	-	2,284,358
Unrestricted	4,692,962	(375,746)	4,317,216
Total net assets	\$ 37,745,517	\$ 10,065,685	\$ 47,811,202

See accompanying notes to financial statements.

Gateway Services Community Development District

Statement of Activities

Year ended September 30,

2011

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental activities:							
General government	\$ (258,636)	\$ 235,797	\$ -	\$ -	\$ (22,839)	\$ -	\$ (22,839)
Maintenance and operations	(3,943,233)	2,198,147	-	-	(1,745,086)	-	(1,745,086)
Interest	(188,291)	254,545	831	-	67,085	-	67,085
<b>Total governmental activities</b>	<b>(4,390,160)</b>	<b>2,688,489</b>	<b>831</b>	<b>-</b>	<b>(1,700,840)</b>	<b>-</b>	<b>(1,700,840)</b>
Business-type activities:							
Water and sewer	(3,385,848)	3,021,214	-	-	-	(364,634)	(364,634)
<b>Total primary government</b>	<b>\$ (7,776,008)</b>	<b>\$ 5,709,703</b>	<b>\$ 831</b>	<b>\$ -</b>	<b>(1,700,840)</b>	<b>(364,634)</b>	<b>(2,065,474)</b>

**General revenues**

Interest and other revenues		136,372	33,291	169,663
<b>Total general revenues</b>		<b>136,372</b>	<b>33,291</b>	<b>169,663</b>
Change in net assets		(1,564,468)	(331,343)	(1,895,811)
Net assets, beginning of year		39,309,985	10,397,028	49,707,013
<b>Net assets, end of year</b>	<b>\$</b>	<b>37,745,517</b>	<b>\$ 10,065,685</b>	<b>\$ 47,811,202</b>

See accompanying notes to financial statements.

Gateway Services Community Development District

Balance Sheet - Governmental Funds

September 30,

2011

	General Fund	Stoneybrook Special Revenue Fund	Pelican Preserve Special Revenue Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 4,093,696	\$ -	\$ 204,715	\$ -	\$ -	\$ 4,298,411
Investments	-	-	-	2,391,180	489,063	2,880,243
Accounts receivable, net	4,923	350	424	-	214	5,911
Interest receivable	277	67	71	-	41	456
Prepaid expenditures	23,304	884	3,409	-	-	27,597
Due from other funds	458,886	-	251,824	-	22,818	733,528
<b>Total assets</b>	<b>\$ 4,581,086</b>	<b>\$ 1,301</b>	<b>\$ 460,443</b>	<b>\$ 2,391,180</b>	<b>\$ 512,136</b>	<b>\$ 7,946,146</b>
<b>Liabilities and fund balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 89,896	\$ 25,012	\$ 162,833	\$ -	\$ 20	\$ 277,761
Due to other funds	-	56,159	-	106,822	-	162,981
<b>Total liabilities</b>	<b>89,896</b>	<b>81,171</b>	<b>162,833</b>	<b>106,822</b>	<b>20</b>	<b>440,742</b>
<b>Fund balances</b>						
Nonspendable	23,304	884	3,409	-	-	27,597
Restricted	-	-	-	2,284,358	506,641	2,790,999
Assigned	3,750,000	-	294,201	-	5,475	4,049,676
Unassigned	717,886	(80,754)	-	-	-	637,132
<b>Total fund balances (deficit)</b>	<b>4,491,190</b>	<b>(79,870)</b>	<b>297,610</b>	<b>2,284,358</b>	<b>512,116</b>	<b>7,505,404</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,581,086</b>	<b>\$ 1,301</b>	<b>\$ 460,443</b>	<b>\$ 2,391,180</b>	<b>\$ 512,136</b>	<b>\$ 7,946,146</b>

See accompanying notes to financial statements.

# Gateway Services Community Development District

## Reconciliation of the Balance Sheet to the Statement of Net Assets

<i>September 30,</i>		<b>2011</b>
Total fund balance - governmental funds	\$	7,505,404
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		33,037,700
Bond issue costs are not financial resources and therefore are not reported as assets in governmental funds. The Statement of Net Assets includes these costs, net of amortization.		74,111
Liabilities not due and payable from current resources, including accrued interest and compensated absences, are not reported in the fund level statements.		(2,871,698)
<b>Total net assets - governmental activities</b>	<b>\$</b>	<b>37,745,517</b>

See accompanying notes to financial statements.

Gateway Services Community Development District

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended September 30,

2011

		Stoneybrook Special Revenue Fund	Pelican Preserve Special Revenue Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Assessments	\$ 1,767,782	\$ 429,058	\$ 229,773	\$ -	\$ 261,876	\$ 2,688,489
Interest and other revenues	112,085	439	6,508	-	832	119,864
<b>Total revenues</b>	<b>1,879,867</b>	<b>429,497</b>	<b>236,281</b>	<b>-</b>	<b>262,708</b>	<b>2,808,353</b>
<b>Expenditures</b>						
Current:						
General government	164,897	24,421	72,699	-	120	262,137
Maintenance and operations	1,888,545	367,228	148,996	-	5,620	2,410,389
Debt service:						
Principal	-	-	-	-	65,000	65,000
Interest	-	-	-	-	185,819	185,819
Capital outlay	76,211	-	1,431	114,425	-	192,067
<b>Total expenditures</b>	<b>2,129,653</b>	<b>391,649</b>	<b>223,126</b>	<b>114,425</b>	<b>256,559</b>	<b>3,115,412</b>
Excess (deficit) of revenues over expenditures	(249,786)	37,848	13,155	(114,425)	6,149	(307,059)
<b>Other financing sources (uses)</b>						
Settlement proceeds	109,607	-	92,413	-	-	202,020
<b>Total other financing sources (uses)</b>	<b>109,607</b>	<b>-</b>	<b>92,413</b>	<b>-</b>	<b>-</b>	<b>202,020</b>
<b>Net change in fund balances</b>	<b>(140,179)</b>	<b>37,848</b>	<b>105,568</b>	<b>(114,425)</b>	<b>6,149</b>	<b>(105,039)</b>
<b>Fund Balance (deficit), beginning of year</b>	<b>4,631,369</b>	<b>(117,718)</b>	<b>192,042</b>	<b>2,398,783</b>	<b>505,967</b>	<b>7,610,443</b>
<b>Fund Balance (deficit), end of year</b>	<b>\$ 4,491,190</b>	<b>\$ (79,870)</b>	<b>\$ 297,610</b>	<b>\$ 2,284,358</b>	<b>\$ 512,116</b>	<b>\$ 7,505,404</b>

See accompanying notes to financial statements.

## Gateway Services Community Development District

### Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

<i>Year ended September 30,</i>	<b>2011</b>
Net change in fund balances - total governmental funds	\$ (105,039)
Capital outlay, reported as expenditures in governmental funds, is shown as capital assets in Statement of Net Assets.	192,067
Certain settlement proceeds recognized in the current year fund level financial statements were previously reported on the Statement of Activities.	(184,681)
Depreciation expense on governmental capital assets and losses on capital asset disposals are included in the governmental activities in the Statement of Activities.	(1,532,174)
Governmental funds report principal payments on bonds when debt is paid, whereas these payments are eliminated in the Statement of Activities and recognized as a decrease in bonds payable in the Statement of Net Assets.	65,000
Amortization of bond issuance costs and original issue discount is not recognized in the governmental fund statement but is reported as an expense in the Statement of Activities.	(4,503)
The change in accrued interest between the current and prior year is recorded on the Statement of Activities but not on the fund level statements.	2,031
<u>Current year change in long-term compensated absence liability does not consume current resources so therefore it is not reflected in the governmental fund.</u>	<u>2,831</u>
<b>Change in net assets of governmental activities</b>	<b>\$ (1,564,468)</b>

See accompanying notes to financial statements.

Gateway Services Community Development District

Balance Sheet - Proprietary Fund

<i>September 30,</i>	<b>2011</b>
	<b>Water and Sewer Fund</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 2,131,292
Accounts receivable, net	597,615
Prepaid expenses	8,949
Due from other funds	9,887
Total current assets	2,747,743
Restricted assets:	
Interest receivable	9
Investments	1,549,230
Total restricted assets	1,549,239
Bond issue costs (net of accumulated amortization)	185,576
Capital assets (net of accumulated depreciation)	11,236,413
Total assets	\$ 15,718,971
<b>Liabilities and Net Assets</b>	
<b>Liabilities</b>	
Current Liabilities:	
Accounts payable	\$ 288,397
Accrued interest payable	74,400
Customer prepayments	2,071,013
Deferred revenue	4,186
Due to other governments	149,360
Due to other funds	580,434
Bonds payable, current	215,000
Total current liabilities	3,382,790
Non-current liabilities:	
Compensated absences	17,901
Due to other governments	12,207
Bonds payable, less current portion	2,240,388
Total liabilities	5,653,286
<b>Net assets</b>	
Invested in capital assets, net of related debt	9,336,565
Restricted for debt service	1,104,866
Unrestricted	(375,746)
Total net assets	10,065,685
Total liabilities and net assets	\$ 15,718,971

See accompanying notes to financial statements.

Gateway Services Community Development District

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Fund

<i>Year ended September 30,</i>	<b>2011</b>
	<b>Water and Sewer Fund</b>
<b>Revenues</b>	
Charges for services	\$ 3,021,214
<b>Total revenues</b>	<b>3,021,214</b>
<b>Operating expenses</b>	
Insurance	27,860
Payroll	329,636
Repairs and maintenance	283,527
Utilities	159,930
Water purchases	1,412,154
Administrative and other	474,190
Depreciation and amortization	549,751
<b>Total operating expenses</b>	<b>3,237,048</b>
<b>Operating income</b>	<b>(215,834)</b>
<b>Non-operating revenues (expenses)</b>	
Interest earnings	29,147
Interest expense	(148,800)
Miscellaneous income	4,144
<b>Total non-operating revenues (expenses)</b>	<b>(115,509)</b>
<b>Net income (deficit)</b>	<b>(331,343)</b>
<b>Net assets, beginning of year</b>	<b>10,397,028</b>
<b>Net assets, end of year</b>	<b>\$ 10,065,685</b>

See accompanying notes to financial statements.

# Gateway Services Community Development District

## Statement of Cash Flows - Proprietary Fund

<i>Year ended September 30,</i>	<b>2011</b>
<hr/>	
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 2,927,768
Payments to employees	(349,338)
Payments to suppliers	(2,776,389)
<hr/>	
Net cash used by operating activities	(197,959)
<hr/>	
<b>Cash flows from non-capital financing activities</b>	
Miscellaneous revenue	4,144
Net cash payments to other governments	(189,610)
Net cash payments to other funds	65,425
<hr/>	
Net cash used by non-capital financing activities	(120,041)
<hr/>	
<b>Cash flows from capital and related financing activities</b>	
Acquisition of capital assets	(69,806)
Principal paid on bonds	(205,000)
Interest paid on bonds	(154,950)
<hr/>	
Net cash used by capital and related financing activities	(429,756)
<hr/>	
<b>Cash flows from investing activities</b>	
Net purchase of investments	(39,980)
Investment income received	30,401
<hr/>	
Net cash used by investing activities	(9,579)
<hr/>	
Net decrease in cash and cash equivalents	(757,335)
<hr/>	
Cash and cash equivalents, beginning of year	2,888,627
<hr/>	
Cash and cash equivalents, end of year	\$ 2,131,292
<hr/>	

(continued)

See accompanying notes to financial statements.

Gateway Services Community Development District

Statement of Cash Flows - Proprietary Fund (Continued)

<i>Year ended September 30,</i>	<b>2011</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>	
Operating income (loss)	\$ (215,834)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	549,751
Provision for bad debt	18,496
Change in operating assets and liabilities:	
Accounts receivable	(36,277)
Prepaid expenses	(2,470)
Accounts payable	(434,754)
Accrued payroll	(7,599)
Accrued compensated absences	(12,103)
Customer prepayments	(57,169)
<b>Net cash provided by operating activities</b>	<b>\$ (197,959)</b>

See accompanying notes to financial statements.

Gateway Services Community Development District

Statement of Fiduciary Net Assets

<i>September 30,</i>	<b>2011</b>		
	<b>Pension Trust Fund</b>	<b>Agency Fund</b>	<b>Total</b>
<b>Assets</b>			
Cash	\$ -	\$ 409,402	\$ 409,402
Investments	160,604	103,850	264,454
Amounts receivable	21,016	746	21,762
Interest receivable	-	144	144
<b>Total assets</b>	<b>181,620</b>	<b>514,142</b>	<b>695,762</b>
<b>Liabilities</b>			
Accounts payable	-	3,770	3,770
Due to HOA	-	267,554	267,554
Agency funds on hand	-	242,818	242,818
<b>Total liabilities</b>	<b>-</b>	<b>514,142</b>	<b>514,142</b>
<b>Net assets</b>			
Held in trust for:			
Employee's pension benefits	\$ 181,620	\$ -	\$ 181,620

See accompanying notes to financial statements.

Gateway Services Community Development District

Statement of Changes in Pension Trust Fund

<i>Year ended September 30,</i>	<b>2011</b>
<b>Additions</b>	
Employer contributions	\$ 21,016
Investment gains	798
<b>Total additions</b>	<b>21,814</b>
Change in net assets	21,814
Net assets, beginning of year	159,806
Net assets, end of year	\$ 181,620

See accompanying notes to financial statements.

### **NOTE 1 – NATURE OF ORGANIZATION**

The Gateway Services Community Development District (the “District”) was established on May 22, 1986 pursuant to the Uniform Community Development District Act of 1980, otherwise known as Chapter 190, Florida Statutes, by the Florida Land and Water Adjudicatory Commission Chapter 42F-1. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure.

The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is governed by a Board of Supervisors (“Board”), which is comprised of five members. The Supervisors are elected on an at large basis by registered voters residing within the boundaries of the District. The Board of Supervisors of the District exercise all powers granted to the District pursuant to Chapter 190, Florida Statutes.

The Board has the final responsibility for:

1. Assessing and levying special assessments.
2. Approving budgets.
3. Exercising control over facilities and properties.
4. Controlling the use of funds generated by the District.
5. Approving the hiring and firing of key personnel.
6. Financing improvements.

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity was made by applying the criteria set forth by Generally Accepted Accounting Principles (GAAP). The primary criteria for including organizations within the District's reporting entity, as defined by the Governmental Accounting Standards Board (GASB) No. 14, is financial accountability. The District is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the District. The District may be financially accountable if an organization is fiscally dependent on the District regardless of whether the organization has (a) a separately elected governing board, (b) a governing board appointed by a higher level of government, or a jointly appointed board. Based on the foregoing criteria, no potential component units were found.

### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the District conform to GAAP as applicable to governments in accordance with those promulgated by GASB. The following is a summary of the more significant policies:

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Government-wide and fund financial statements***

The basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by non ad-valorem assessments, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Assessments and other items not properly included as program revenues are reported as general revenues.

The preparation of both government-wide financial statements and proprietary fund financial statements includes the application of GASB pronouncements and those of the Financial Accounting Standards Board (FASB) issued before November 30, 1989.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

***Measurement Focus, Basis of Accounting and Basis of Presentation***

In March 2009, GASB issued Statement No. 54 – Fund Balance Reporting and Government Fund Type Definitions. This Statement establishes fund balance classifications based primarily on the extent to which the District is bound to honor constraints on the use of the resources reported in each governmental fund as well as establishes additional note disclosures regarding fund balance classification policies and procedures.

This District made the decision to implement this standard effective October 1, 2010.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and other similar items are to be recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# Gateway Services Community Development District

## Notes to Financial Statements

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### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assessments, including debt service assessments and operation and maintenance assessments, are non-ad valorem assessments imposed on all lands located within the District and benefited by the District's activities. Operation and maintenance assessments are levied by the District prior to the start of the fiscal year, which begins October 1<sup>st</sup> and ends on September 30<sup>th</sup>. Operation and maintenance special assessments are imposed upon all benefited lands located in the District. Debt service special assessments are imposed upon certain lots and lands as described in each resolution imposing the special assessment for each series of bonds issued by the District.

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The District reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in other funds.

Stoneybrook Special Revenue Fund – The Stoneybrook Special Revenue Fund is the primary operating fund of the Stoneybrook development, which is located within the boundaries of the District.

Pelican Preserve Special Revenue Fund – The Pelican Preserve Special Revenue Fund is the primary operating fund of the Pelican Preserve development, which is located within the boundaries of the District.

Capital Projects Fund – The Capital Projects Fund accounts for the financial resources to be used in the acquisition or construction of major infrastructure within the District financed with the bonds.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue source of the District's enterprise funds are charges to customers for water and sewer usage. The District's operating expenses within its enterprise fund include the cost of water, administrative expenses, insurance, repairs and maintenance, utilities, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Proprietary funds include the following fund types:

Water and Sewer Fund – The Water and Sewer Fund is used to account for the operations of the water and sewer facilities, which are funded by proceeds from operations of these facilities, including user fees, meter fees and connection fees.

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

Pension Trust Fund – The Pension Trust Fund is used to account for the changes in net assets held in trust for the employees' pension benefit.

Agency Fund – The Agency Fund is used to account for the collection and remittance of monies by the District on behalf of other governments and entities.

***Cash, Deposits and Investments***

The District generally maintains deposits with "Qualified Public Depositories" (QPD) as defined in Chapter 280, Florida Statutes. All QPD's must place with the Treasurer of the State of Florida securities in accordance with collateral requirements determined by the State's Chief Financial Officer. In the event of default by a QPD, the State Treasurer will pay public depositors all losses. Losses in excess of insurance and collateral will be paid through assessments between all Qualified Public Depositories. At September 30, 2011, the District identified one financial institution that is not a QPD, and the total of the funds invested exceeded FDIC insurance limits by approximately \$76,000.

Under this method, except as identified above, all the District's deposits are fully insured or collateralized at the highest level of security as defined by *Governmental Accounting Standards Board, Statement Number 40, Deposits and Investment Disclosures (An Amendment of Governmental Accounting Standards Board, Statement Number 3)*.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The District is authorized to invest in financial instruments as established by Section 218.415, Florida Statutes. The authorized investments include among others, negotiable direct or indirect obligations which are secured by the United States Government; the Local Government Surplus Funds Trust as created by Section 218.405, Florida Statutes; SEC registered money market funds with the highest credit quality rating from a nationally recognized rating agency; and interest-bearing time deposits or savings accounts in authorized financial institutions. In addition, the District’s Bond Indentures allow it to invest in highly rated commercial paper and other securities including government obligations or obligations of any political subdivision of any state within the United States.

***Capital Assets***

Capital assets, which include primarily infrastructure assets (e.g. roads, sidewalks, water management systems and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial/individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost and estimated historical cost if purchased or constructed. Donated assets are recorded at fair market value at the date of donation.

Proprietary fund capital assets are capitalized and depreciated over the useful lives of the assets. The District’s proprietary fund capital assets include water and sewer lines, meters in the field and equipment for the water and sewer facilities. Property, plant, and equipment of the business-type activities are depreciated using the straight line method over the following estimated useful lives:

Infrastructure	Years
Water and sewer lines	30-40
Equipment	5-10
Meters in the field	15-20
Plant and equipment	10-39

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the governmental activities are depreciated using the straight-line method over the following estimated useful lives

Infrastructure	Years
Buildings and improvements	7-39
Infrastructure	20-40
Equipment	5-10

In the governmental fund financial statements, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is not reported in the governmental fund financial statements.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Interfund Balances***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds”.

***Restricted Assets***

Certain proceeds of the District’s Water and Sewer Refunding Revenue Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

***Customer Prepayments***

At September 30, 2011, the District was maintaining approximately \$575,000 of customer deposits as part of its normal water and sewer operations.

The District also has approximately \$1.5 million of prepaid connection fees remaining primarily from one landowner. These credits originally arose as a result of the landowner paying the District’s debt service liability at a time when the District had liquidity problems. On the issuance of the Series 2003 Water and Sewer Bonds, the prepaid credits amounted to \$2,675,000. These amounts are reflected as Customer prepayments on the accompanying Balance Sheet – Proprietary Fund. During fiscal year 2011, approximately \$73,000 of prepaid connection fee credits were used by the landowner.

***Compensated Absences***

Vested or accumulated leave (annual, personal and sick) that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. All vested or accumulated leave is accrued when incurred in the government-wide and proprietary fund financial statements. In accordance with the provisions of governmental accounting standards, no liability is recorded for nonvesting accumulating rights to receive sick pay or personal leave benefits.

***Long-Term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line or effective-interest method. Bonds payable are reported net of premiums or discounts.

In the governmental activities, bond issuance costs are shown as deferred charges and are presented net of \$1,186,285 of accumulated amortization. In the business-type activities, bond issuance costs are capitalized and are presented net of \$191,376 of accumulated amortization.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current period expenditures.

***Fund Equity***

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the District board through approval of resolutions. Assigned fund balance is a limitation imposed by a designee of the District board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

Net assets in the government-wide and proprietary fund financial statements are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to infrastructure and property, plant and equipment, net of any related debt. Restricted net assets represent the net assets restricted by the District's bond covenants.

***Budgets***

The District is required to establish a budgetary system and an approved annual budget. Annual budgets are legally adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. Any revision to the budget must be approved by the District Board. The budgets are compared to actual expenditures. In instances where budget appropriations and estimated revenues have been revised during the year, budget data presented in the financial statements represent final authorization amounts.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- B. A public hearing is conducted to obtain comments.
- C. Prior to October 1, the budget is legally adopted by the District Board.
- D. All budget changes must be approved by the District Board.
- E. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 3 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District maintains commercial insurance coverage to mitigate the risk of loss. Coverage may not extend to all situations. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this commercial coverage during the last three years.

**NOTE 4 – MANAGEMENT COMPANY**

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as officers (Board appointed non-voting positions) of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, and other administrative costs.

**NOTE 5 – INVESTMENTS**

The following is a summary of the District's investments. All investments held at September 30, 2011 are reported at fair value based on quoted market prices, which approximates amortized cost. Values for most of the District's investments are based on quoted market prices or amounts determined by the issuer.

<i>September 30,</i>	<b>2011</b>	<b>Credit Risk</b>	<b>Maturities</b>
Short-term Money Market Funds	<b>\$ 3,316,729</b>	S&P AAAM	50 days
Certificates of Deposit	<b>912,576</b>	Not rated	11/1/11 - 11/27/12
Municipal Issues	<b>50,183</b>	S&P A+	11/01/11
Commercial Paper	<b>149,985</b>	S&P A+/Not rated	11/15/11 - 11/28/2011
<b>Total investments</b>	<b>\$ 4,429,473</b>		

The District has reflected a total of \$1,549,230 of investments as restricted assets within the business-type activities on the accompanying Statement of Net Assets.

# Gateway Services Community Development District

## Notes to Financial Statements

### NOTE 5 – INVESTMENTS (CONTINUED)

*Concentration risk* – The District’s investment policy requires diversification, but does not specify limits on types of investments.

*Custodial credit risk* – For an investment, custodial credit risk is the risk that the District will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. The District has adopted a policy for custodial risk. At September 30, 2011, the Commercial Paper and Municipal Issues are held by counterparty in the District’s name. None of the other investments listed are exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

*Interest rate risk* – The District does not have a formal policy for addressing interest rate risk; however, investments are made with discretion, to seek reasonable returns, preserve capital, and in general, avoid speculative investments. The District manages its exposure to declines in fair values from interest rate changes by reviewing the portfolio on an ongoing basis for changes in effective yield amounts.

### NOTE 6 – CAPITAL ASSETS

The following is a summary of capital asset activity for the year ended September 30, 2011:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land and improvements	\$ 5,439,433	\$ -	\$ -	\$ 5,439,433
Total capital assets not being depreciated	5,439,433	-	-	5,439,433
<i>Capital assets being depreciated:</i>				
Building and improvements	2,192,493	25,324	-	2,217,817
Infrastructure	37,803,829	114,425	-	37,918,254
Equipment	383,874	52,318	-	436,192
Total capital assets being depreciated	40,380,196	192,067	-	40,572,263
<i>Less accumulated depreciation for:</i>				
Building and improvements	1,726,730	95,736	-	1,822,466
Infrastructure	9,379,510	1,426,165	-	10,805,675
Equipment	335,582	10,273	-	345,855
Total accumulated depreciation	11,441,822	1,532,174	-	12,973,996
Total capital assets being depreciated, net	28,938,374	(1,340,107)	-	27,598,267
<b>Governmental activities capital assets, net</b>	<b>\$ 34,377,807</b>	<b>\$ (1,340,107)</b>	<b>\$ -</b>	<b>\$ 33,037,700</b>

# Gateway Services Community Development District

## Notes to Financial Statements

### NOTE 6 – CHANGES IN CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Business-type Activities:</b>				
<i>Capital assets being depreciated:</i>				
Water and sewer lines	\$ 17,384,597	\$ -	\$ -	\$ 17,384,597
Equipment	224,525	11,812	(6,000)	230,337
Meters in the field	344,649	-	-	344,649
Plant and equipment	1,230,304	60,394	-	1,290,698
<b>Total capital assets being depreciated</b>	<b>19,184,075</b>	<b>72,206</b>	<b>(6,000)</b>	<b>19,250,281</b>
<i>Less accumulated depreciation for:</i>				
Water and sewer lines	7,062,862	451,870	-	7,514,732
Equipment	174,821	16,843	(3,600)	188,064
Meters in the field	152,178	15,547	-	167,725
Plant and equipment	104,130	39,217	-	143,347
<b>Total accumulated depreciation</b>	<b>7,493,991</b>	<b>523,477</b>	<b>(3,600)</b>	<b>8,013,868</b>
<b>Total capital assets being depreciated, net</b>	<b>11,690,084</b>	<b>(451,271)</b>	<b>(2,400)</b>	<b>11,236,413</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 11,690,084</b>	<b>\$ (451,271)</b>	<b>\$ (2,400)</b>	<b>\$ 11,236,413</b>

Depreciation expense relating to governmental activities of \$1,532,174 was allocated to maintenance and operations on the accompanying Statement of Activities. Depreciation expense relating to business-type activities of \$523,477 was expensed to Water and Sewer operations on the accompanying Statement of Activities.

### NOTE 7 – BONDS PAYABLE

#### Special Assessments Bonds – Series 2003

On March 13, 2003, the District issued \$38,150,000 of Special Assessment Bonds Series 2003, consisting of \$3,200,000 of Series 2003A bonds and \$34,950,000 of Series 2003B bonds with fixed interest rates of 6.50% and 5.50%, respectively. The Bonds were issued to finance the acquisition and construction of certain improvements for the benefit of the District. Interest is paid semiannually on each May 1 and November 1. Principal on the Series 2003A Bonds is paid serially commencing on May 1, 2004 through May 1, 2033. Principal on the series 2003B Bonds was paid in full during fiscal year 2009.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to pay for the infrastructure improvements and the procedures to be followed by the District on assessments to property owners. The District agreed to levy special assessments in annual amounts adequate to provide payment of debt service and to meet the reserve requirements. The District is in compliance with the requirements of the Bond Indenture.

# Gateway Services Community Development District

## Notes to Financial Statements

### NOTE 7 – BONDS PAYABLE (CONTINUED)

The Bond Indenture requires that the District maintain adequate funds in the reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement has been met for the fiscal year ended September 30, 2011.

The balance of the Series 2003 Bonds at September 30, 2011 is summarized as follows:

<i>September 30,</i>	<b>2011</b>
Bond principal balance	\$ 2,795,000
Less unamortized bond discount	(20,443)
Net balance, Series 2003 Bonds	\$ 2,774,557

At September 30, 2011, the scheduled debt service requirements on the 2003-A Bonds were as follows:

<i>Year Ending September 30,</i>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2012	60,000	181,675	241,675
2013	65,000	177,775	242,775
2014	70,000	173,550	243,550
2015	75,000	169,000	244,000
2016	80,000	164,125	244,125
2017 - 2021	480,000	736,125	1,216,125
2022 - 2026	650,000	559,325	1,209,325
2027 - 2031	890,000	319,150	1,209,150
2032 - 2033	425,000	41,600	466,600
	\$ 2,795,000	\$ 2,522,325	\$ 5,317,325

### Water and Sewer Refunding Revenue Bonds – Series 2003

On June 23, 2003, the District issued \$3,815,000 of Water and Sewer Refunding Revenue Bonds, Series 2003 with a fixed interest rate of 6.00%. The Bonds were issued to refinance the series Water and Sewer Revenue Bonds, Series 1989. Interest is paid semiannually on each October 1 and April 1. Principal on the Series 2003 Bonds is paid serially commencing on October 1, 2003 through October 1, 2019.

The Bond Indenture has certain restrictions and requirements relating principally to the use of proceeds to refund and defease the Water and Sewer Revenue Bonds, Series 1989. The District pledged as security for payment of the principal and interest on the Bonds the net revenues (gross revenues less cost of operations and maintenance) derived from operation of the District's water and sewer system. At September 30, 2011, The District is in compliance with the requirements of the Bond Indenture.

# Gateway Services Community Development District

## Notes to Financial Statements

### NOTE 7 – BONDS PAYABLE (CONTINUED)

The Bond Indenture requires that the District maintain adequate funds in the reserve account to meet the debt service reserve requirement as defined in the Indenture. The requirement has been met for the fiscal year ended September 30, 2011.

Revenue bonds outstanding, at September 30, 2011 are as summarized as follows:

<i>September 30,</i>	<b>2011</b>
Bond principal balance	\$ 2,480,000
Less unamortized bond discount	(24,612)
<b>Net balance, Series 2003 Bonds</b>	<b>\$ 2,455,388</b>

At September 30, 2011, the scheduled debt service requirements on long-term debt were as follows:

<i>Year Ending September 30,</i>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2012	215,000	142,350	357,350
2013	230,000	129,000	359,000
2014	245,000	114,750	359,750
2015	255,000	99,750	354,750
2016	270,000	84,000	354,000
2017 - 2020	1,265,000	157,350	1,422,350
	<b>\$ 2,480,000</b>	<b>\$ 727,200</b>	<b>\$ 3,207,200</b>

### NOTE 8 – CHANGES IN LONG-TERM DEBT

Long-term liability activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities</i>					
Bonds Payable:					
Series 2003A	\$ 2,860,000	\$ -	\$ 65,000	\$ 2,795,000	\$ 60,000
Compensated absences	24,274	-	2,831	21,443	-
<i>Business-type Activities</i>					
Bonds Payable:					
Series 2003	2,685,000	-	205,000	2,480,000	215,000
Compensated absences	30,004	-	12,103	17,901	-
	<b>\$ 5,599,278</b>	<b>\$ -</b>	<b>\$ 284,934</b>	<b>\$ 5,314,344</b>	<b>\$ 275,000</b>

Gateway Services Community Development District

Notes to Financial Statements

**NOTE 9 – LONG-TERM DEBT WITHOUT GOVERNMENTAL COMMITMENT**

Special assessment debt has been issued to finance certain improvement projects. The District collects assessments from the property owners and remits them to the trustee for bond payments, but has no direct or contingent liability or moral obligation for the payment of this debt. Therefore, this activity is reported in an agency fund, and the debt is not included in the financial statements of the District.

On August 20, 2007, the District issued \$2,450,000 of Water Management Benefit Tax Refunding Bonds, Series 2007 with a fixed interest rate of 5.25%. The Bonds were issued to refund and defease the Second Assessment Area – Phase One Water Management Benefit Tax Bonds, Series 1995. Interest is paid semiannually on each May 1 and November 1. Principal on the Series 2007 Bonds is paid serially commencing on May 1, 2008 through May 1, 2020.

Long-term liability activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Agency Fund</i>					
Bonds Payable:					
Series 2007	\$ 2,025,000	\$ -	\$ 160,000	\$ 1,865,000	\$ 165,000
	\$ 2,025,000	\$ -	\$ 160,000	\$ 1,865,000	\$ 165,000

**NOTE 10 – INTERFUND BALANCES**

At September 30, 2011, the interfund receivables and payables are as follows:

<i>September 30,</i>	Interfund	
	Receivables	Payables
<i>Governmental funds:</i>		
General Fund	\$ 635,790	\$ 176,904
Pelican Preserve Special Revenue Fund	260,908	9,084
Other Governmental Funds	30,421	114,425
Stoneybrook Special Revenue Fund	-	56,159
<i>Proprietary funds:</i>		
Water and Sewer Fund	9,887	580,434
<b>Total</b>	<b>\$ 937,006</b>	<b>\$ 937,006</b>

The outstanding balances between the funds resulted primarily from borrowings to pay certain expenses and the differences in the dates that certain transactions are received by the District and the time for the receipt of funds to clear before these funds can be transferred to the applicable account.

Gateway Services Community Development District

Notes to Financial Statements

**NOTE 11 – FUND BALANCES BY PURPOSE**

The following is a more detailed presentation of the governmental fund balances:

	General Fund	Stoneybrook SRF	Pelican Preserve SRF	Capital Projects Fund	Other Governmental Funds	Total
Nonspendable for:						
Prepaid expenditures	\$ 23,304	\$ 884	\$ 3,409	\$ -	\$ -	\$ 27,597
Restricted for:						
Debt service	-	-	-	-	506,641	506,641
Capital projects	-	-	-	2,284,358	-	2,284,358
Assigned for:						
Emergency funds	1,000,000	-	-	-	-	1,000,000
Operating reserve	500,000	-	-	-	-	500,000
Capital assets	2,250,000	-	-	-	-	2,250,000
Special revenue activities	-	-	294,201	-	5,475	299,676
Unassigned	717,886	(80,754)	-	-	-	637,132
	\$ 4,491,190	\$ (79,870)	\$ 297,610	\$ 2,284,358	\$ 512,116	\$ 7,505,404

**NOTE 12 – OPERATING LEASE**

The District is obligated to Lee County under a wholesale wastewater treatment and reuse water service agreement. Future minimum required payments are as follows:

<i>Year Ending September 30,</i>	<b>Total Payments</b>
2012	172,335
2013	172,335
2014	172,335
2015	172,335
2016	172,335
2017 - 2021	861,675
2022 - 2026	861,675
2027 - 2031	861,675
2032 - 2034	517,005
	<b>\$ 3,963,705</b>

In addition, the District owes certain amounts to Lee County for other debt service amounts. These amounts total \$158,692 at September 30, 2011 and are being repaid interest-free through monthly payments of \$12,207. The amount will be repaid in full in October 2012.

**NOTE 13– RETIREMENT PLAN**

Employees of the District that have completed one year of service, have attained the age of 21, and work more than 1,000 hours per year were eligible to participate in a Money Purchase Pension Plan, through the Gateway Services Community Development District, authorized by resolution as a defined contribution plan, effective October 1, 1991. The plan was administered by Coastal Pension Consultants, Inc. The benefits depend solely on amounts contributed to the plan plus investment earnings. The District's policy is to provide for the annual pension costs in the annual budget. Contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The sole plan assets consist of an investment in a mutual fund. Active plan members are not required to make contributions. For the fiscal year ended September 30, 2011, the required contribution totaled \$21,016.

The District has voted to terminate the Money Purchase Pension Plan. Effective September 30, 2011, contributions to the plan ceased. Subsequent to year end, the District voted to establish a deferred compensation plan under IRC Section 457.

**NOTE 14 – CONTINGENCIES**

The District is involved in various litigation, claims, and investigations arising in the normal course of business. These include actions in which the District is the plaintiff and others where the District is the defendant. Certain of these actions involve various residents making assertions with respect to fees collected and aspects of the District's relationship with Lee County. Others are comprised of the District negotiating items with the original developer of the District for latent deficiencies and other amounts spent to remedy identified problems.

The outcome of these various items is currently unknown. However, District management believes, after consulting with District counsel, that the potential amount of the District's liability in these matters will not be material to the financial statements.

**NOTE 15 – IMPACT FEES**

On April 14, 2011, the City of Fort Myers, Florida issued fire impact fee credits to the District totaling \$1,510,505. The credits are valid for use in the City of Fort Myers and will expire on March 31, 2015, ten years from the date the certificate of occupancy was obtained for the Public Safety Building on Treeline Avenue. The credits could be used to offset future impact fee charges or could be sold or transferred to another entity. The ultimate amount received as a result of sale or transfer is subject to negotiation and may be less than the full amount of the credits. Because of the uncertainty regarding the ultimate amount to be realized, if any, from these credits, no amounts are recorded on the accompanying financial statements.

Required Supplementary Information  
(Other Than MD&A)

Gateway Services Community Development District

Budgetary Comparison Schedule - General Fund

<i>Year ended September 30,</i>	<b>2011</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>				
Assessments	\$ 1,757,996	\$ 1,757,996	\$ 1,767,782	\$ 9,786
Interest and other revenues	94,939	221,717	112,085	(109,632)
<b>Total revenues</b>	<b>1,852,935</b>	<b>1,979,713</b>	<b>1,879,867</b>	<b>(99,846)</b>
<b>Expenditures</b>				
General government	131,913	177,447	164,897	12,550
Maintenance and operations	1,675,155	1,904,266	1,888,545	15,721
Capital outlay	45,867	58,000	76,211	(18,211)
<b>Total expenditures</b>	<b>1,852,935</b>	<b>2,139,713</b>	<b>2,129,653</b>	<b>10,060</b>
Excess (deficit) of revenues over expenditures	-	(160,000)	(249,786)	(89,786)
Other financing sources	-	-	109,607	109,607
Net change in fund balances	-	(160,000)	(140,179)	19,821
Fund balance, beginning of year	-	160,000	4,631,369	4,471,369
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,491,190</b>	<b>\$ 4,491,190</b>

Gateway Services Community Development District

Budgetary Comparison Schedule - Stoneybrook  
Special Revenue Fund

<i>Year ended September 30,</i>	<b>2011</b>			
	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>				
Assessments	\$ 428,842	\$ 428,842	\$ 429,058	\$ 216
Interest and other revenues	-	-	439	439
<b>Total revenues</b>	<b>428,842</b>	<b>428,842</b>	<b>429,497</b>	<b>655</b>
<b>Expenditures</b>				
General government	11,996	11,996	24,421	(12,425)
Maintenance and operations	362,388	382,388	367,228	15,160
<b>Total expenditures</b>	<b>374,384</b>	<b>394,384</b>	<b>391,649</b>	<b>2,735</b>
Excess (deficit) of revenues over expenditures	54,458	34,458	37,848	(3,390)
Fund balance (deficit), beginning of year	(54,458)	(34,458)	(117,718)	83,260
<b>Fund balance (deficit), end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (79,870)</b>	<b>\$ (79,870)</b>

Gateway Services Community Development District  
 Budgetary Comparison Schedule - Pelican Preserve  
 Special Revenue Fund

<i>Year ended September 30,</i>	<b>2011</b>		
	<b>Original and Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget</b>
<b>Revenues</b>			
Assessments	\$ 227,324	229,773	\$ 2,449
Interest and other revenues	2,500	6,508	4,008
<b>Total revenues</b>	<b>229,824</b>	<b>236,281</b>	<b>6,457</b>
<b>Expenditures</b>			
General government	58,935	72,699	(13,764)
Maintenance and operations	145,708	148,996	(3,288)
Capital outlay	14,133	1,431	12,702
<b>Total expenditures</b>	<b>218,776</b>	<b>223,126</b>	<b>(4,350)</b>
Excess of revenues over expenditures	11,048	13,155	2,107
Other financing sources	-	92,413	92,413
Net change in fund balances	11,048	105,568	94,520
Fund balance, beginning of year	-	192,042	(192,042)
<b>Fund balance, end of year</b>	<b>\$ 11,048</b>	<b>\$ 297,610</b>	<b>\$ (97,522)</b>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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To the Board of Supervisors  
Gateway Services Community Development District  
Lee County, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gateway Services Community Development District (hereinafter referred to as the "District"), as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements and have issued our report dated June 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of Gateway Services Community Development District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

**IC2011 - 1:** As part of our audit testing of the Utility Fund billings, we selected a sample of billings and recalculated the amounts billed based on established rate structures. We noted, as a result of this testing, the District did not correctly implement Resolution 2011-03 related to the irrigation rate schedule. The new schedule reduced the initial water conservation gallon

breakpoint from 25,000 gallons to 20,000. Substantially all of the customer accounts with 3/4" meters were still using the old breakpoint even after resolution 2011-03 was implemented. In addition, certain accounts were not using any sort of conservation breakpoint. These accounts, primarily all identified in route 29, were charged \$0.23 per 1,000 gallons for their entire amount of water consumption regardless of the gallons actually consumed. The utilization of the incorrect rate schedule has resulted in the District charging irrigation customers with bi-monthly consumption greater than 40,000 gallons an amount less than that if the new schedule was used.

We have communicated the details of our testing with District Management. We recommend the District correct the conservation gallon breakpoint in the billing system. In addition, we recommend the District establish procedures to ensure proper implementation of changes to rate schedules.

**Management's response:** Management acknowledges that one billing route did not correctly include a conservation break point and, upon investigation, discovered that this affected approximately 32 customer accounts. This was rectified by District staff in a period subsequent to that tested by the Auditors.

As to the conservation rate break point for the 3/4" meters, we have identified a conflict between the residential and the multi-family/commercial initial breakpoint per Resolution 2009-12. This disparity remains on the District's rate schedule and, will be addressed in the current on going rate study to provide an equitable application of the conservation strategy.

Procedures will be implemented to ensure that the current rates are applied as intended and that any future changes will be correctly addressed.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management, the Board of Supervisors, others within the District, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than those specified parties.

*Carr, Riggs & Ingram, L.L.C.*

Miramar Beach, Florida  
June 29, 2012

## MANAGEMENT LETTER

To the Board of Supervisors  
Gateway Services Community Development District  
Lee County, Florida

We have audited the financial statements of Gateway Services Community Development District ("District") as of and for the fiscal year ended September 30, 2011, and have issued our report thereon dated June 29, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an Audit of Financial Statements performed in Accordance with *Government Auditing Standards*. Disclosures in those reports and schedule, which are dated June 29, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding annual audit report.

Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the District did not comply with Section 218.415, Florida Statutes.

**ML2011 - 1:** The District maintained deposits with a financial institution which is not a Qualified Public Depository, and the total of the funds invested exceeded the FDIC limit by approximately \$76,000 as of September 30, 2011.

**Management's response:** The majority of the investments with this financial institution matured on March 28, 2012 and were not reinvested, thereby reducing the total investment to within the FDIC limit. The District will take steps to ensure this will be avoided in the future.

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The information required is disclosed in the notes to the financial statements.

Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the District for the fiscal year ended September 30, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information of the District and management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*Carr, Riggs & Ingram, L.L.C.*

Miramar Beach, Florida  
June 29, 2012